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C O N F I D E N T I A L ROME 002706

SIPDIS

PASS USTR FOR ALLGEIER, DEILY, DAVIDSON, NOVELLI, LISER
EUR/WE, EB FOR A/S WAYNE, EB/TPP/BTA/DCT FOR WMOORE
PASS DOC FOR ITA/GALDONIS/SCLAEYS/DDEFALCO
E FOR CHASE, SECOR

E.O. 12958: DECL: 06/04/2007

TAGS: [ETRD](#) [IT](#) [EUN](#)

SUBJECT: ITALY ON STEEL: GIVE US SOMETHING TO WORK WITH

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REF: (A) ROME 2266 (B) ROME 1853

CLASSIFIED BY: CLASSIFIED BY ECMIN MARGARET DEAN; REASON 1.5 B/D.

1. (C) SUMMARY. ARMED WITH AN EVIDENT PRESIDENT BUSH-PRIME MINISTER BERLUSCONI UNDERSTANDING THAT UNILATERAL TRADE ACTIONS SHOULD BE AVOIDED, ITALY IS LOOKING TO DAMPEN EC AND MEMBER STATE CALLS FOR STEEL RETALIATION. ITALY'S ALTERNATE 133 REPRESENTATIVE, HOWEVER, TOLD VISITING EB ASSISTANT SECRETARY PRIOR TO THE 31 MAY 133 COMMITTEE MEETING THAT

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COOLING THE EC WOULD REQUIRE DEMONSTRABLE PROGRESS IN EC-USG TALKS. ITALY'S 133 TITULAIRE TOLD ECOUNS ON 4 JUNE THAT "PROGRESS" MEANS REGULAR USG ANNOUNCEMENTS OF EXCLUSIONS, GOOD-FAITH NEGOTIATIONS ON COMPENSATION, AND A SHORTENING OF THE THREE-YEAR LIFE OF USG SAFEGUARDS. HE CONFIRMED REPORTS THAT THE EU WOULD TECHNICALLY SUSPEND U.S. CONCESSIONS ON 17 JUNE BUT DISMISSED THIS DEVELOPMENT AS A TECHNICAL MEASURE. POST RECOMMENDS THAT WASHINGTON AGENCIES BEAR IN MIND THAT THE PRESIDENT BUSH-PM BERLUSCONI UNDERSTANDING MAY PROVE USEFUL AS THE STEEL CASE MOVES ALONG. END SUMMARY.

2. (C) DURING 30 MAY MEETINGS WITH PRIME MINISTER DIPLOMATIC ADVISOR GIOVANNI CASTELLANETA AND MFA DIRECTOR GENERAL FOR EU AFFAIRS ROCCO CANGELOSI, VISITING EB ASSISTANT SECRETARY TONY WAYNE AND ECONOFF WELCOMED INDICATIONS THAT PRESIDENT BUSH AND PRIME MINISTER BERLUSCONI HAD AGREED DURING THEIR 27 MAY BILATERAL THAT UNILATERAL TRADE ACTIONS WERE INADVISABLE. CASTELLANETA AND CANGELOSI BOTH INDICATED THAT BERLUSCONI HAD ISSUED GUIDANCE THAT ITALY SHOULD WORK TO CALM THE DISPUTE OVER STEEL. DURING A MEETING LATER ON 30 MAY, SANDRO FANELLA, GOI ALTERNATIVE REPRESENTATIVE TO THE EU'S 133

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COMMITTEE, CONFIRMED THAT THE GOI PARTICULARLY WANTS TO AVOID UNILATERAL EU ACTION IN THE STEEL CASE. DURING THAT 30 MAY MEETING AND A 4 JUNE CONVERSATION BETWEEN ECOUNS AND GOI 133 COMMITTEE TITULAIRE MARIO GERBINO, SANDWICHED AROUND THE 31 MAY 133 COMMITTEE MEETING, THE ITALIANS LAID OUT THEIR VIEW OF HOW EVENTS NEED TO PLAY OUT IN ORDER TO OBIVATE UNILATERAL EU RETALIATION.

3. (C) FANELLA AND GERBINO HAVE BEEN CONVINCED BY EC LAWYERS THAT THE EU MUST TAKE SOME AFFIRMATIVE ACTION BY 17 JUNE TO AVOID WAIVING ARTICLE 8.2 RIGHTS. GERBINO SAID THIS DECISION HAS BEEN TAKEN AND WOULD BE ANNOUNCED AT THE 17 JUNE GENERAL AFFAIRS COUNCIL MEETING. BUT HE QUICKLY ADDED THAT THE EFFECT WOULD BE MINIMAL: CONCESSIONS WOULD BE SUSPENDED, BUT THERE WOULD FOLLOW AN IMMEDIATE SUSPENSION OF THE SUSPENSION. GERBINO'S SENSE OF THE 31 MAY MEETING WAS THAT MOST MEMBER STATES WOULD BE HAPPY TO FOREGO UNILATERAL RETALIATION, ASSUMING EU RIGHTS WERE PRESERVED TO THEIR SATISFACTION, PROVIDED EU-USG SETTLEMENT TALKS WERE PROGRESSING.

4. (C) GOING INTO THE 31 MAY MEETING FANELLA STILL HOPED THAT EU-USG PROGRESS WOULD TAKE THE FORM OF COMPENSATION OR REBALANCING. A/S WAYNE DID NOT DISABUSE HIM BUT PUSHED THE DISCUSSION TOWARDS THE EXCLUSION PROCESS AND NOTED THAT THERE WAS NO WTO PRECEDENCE FOR COMPENSATION. COMING OUT OF THE 133 COMMITTEE MEETING, GERBINO HAD MORE DEFINITIVE BENCHMARKS FOR MEASURING NEGOTIATION PROGRESS. HE SAID THAT THE EC REPRESENTATIVES SAID THEY HAD BEEN ASSURED BY THE USG THAT WEEKLY EXCLUSION ANNOUNCEMENTS WOULD BE INSTITUTED IN THE NEAR FUTURE. HE STILL EXPECTS USG MOVEMENTS ON COMPENSATION. WHEN ECOUNS REITERATED THAT THERE IS NO PRECEDENT FOR

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COMPENSATION IN A SAFEGUARDS CASE, GERBINO REPLIED, "THERE'S ALWAYS A FIRST TIME." FINALLY, HE SAID THE EC WILL BE LOOKING FOR THE USG TO SHORTEN THE THREE-YEAR LIFE OF OUR SAFEGUARDS. WITHOUT HANDICAPPING HOW MUCH PROGRESS ON EACH BENCHMARK WOULD SUFFICE TO ALLOW THE EU TO CONTINUE TO STAND DOWN FROM IMPLEMENTATION OF RETALIATION, GERBINO SAID HE IS CONFIDENT THAT IMPLEMENTATION COULD BE DELAYED UNTIL AT LEAST OCTOBER.

15. (C) COMMENT. THE ITALIANS CLEARLY ARE LOOKING FOR A FIG LEAF THAT WOULD ALLOW THEM TO CONTINUE TO ADVOCATE WITHIN THE EU FOR MODERATION (REFS A AND B) PER PM BERLUSCONI'S WISHES. WE SHOULD CONTINUE TO WORK ON THE IMPORTANT OPENING CREATED BY PRESIDENT BUSH'S DISCUSSIONS WITH THE PM, WHICH MAY MEAN GETTING THE PM'S OFFICE AND MFA TO KEEP PRESSURE ON THE DEPUTY MINISTRY OF FOREIGN TRADE. IF, AS GERBINO BELIEVES, A USG DECISION HAS BEEN TAKEN TO ANNOUNCE EXCLUSIONS ON A WEEKLY BASIS, THIS SHOULD SUFFICE FOR ITALY'S PURPOSES FOR THE TIME BEING. ON THE OTHER HAND, IF COMPENSATION/REBALANCING TALKS BECOME STUCK, THE ITALIANS WILL BEGIN TO LOOK FOR USG MOVEMENT ON THE REMAINING BENCHMARK -- THE DURATION OF OUR SAFEGUARDS.

16. (U) A/S WAYNE CLEARED ON THIS MESSAGE.
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